

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**NOTE 1 – CONTINUED**

Fixed assets include the Baseball Stadium and Furniture, Machinery and Equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs, architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Fixed assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Fixed assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgeting Procedures**

On or before October 17 of each year, the County Executive presents the proposed budget for the following calendar year to the County Council for review. The budget includes all funds, revenues and reserves; is divided into programs, projects and objects of expense; and includes all supporting data deemed advisable by the County Executive or required by ordinance. The budget indicates for each program, project or object of expense: the actual expenditures of the preceding year; the appropriations for the current year and proposed appropriations for the next year; and includes the proposed capital improvement program for the next six years. The expenditures included in the budget for the ensuing year may not exceed the estimated revenues. The County Council holds public hearings and may add to, subtract from, or change appropriations for, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Executive, or the revenue estimates must be changed by an affirmative vote of nine members of the County Council. The Executive has total veto and item veto power over appropriation ordinances approved by the County Council. Within 30 days after an appropriation ordinance has been vetoed or partially vetoed, the County Council may override the veto or partial veto by enacting the appropriation ordinance with a minimum of nine affirmative votes. The appropriation ordinance establishes the budgeted level of authorized expenditures that may not be legally exceeded without County Council approval of supplemental appropriation ordinances. Supplemental appropriation ordinances are reviewed by the Office of Budget and Strategic Planning and submitted to the County Executive. If approved for further consideration, they are transmitted to the County Council for its review and approval. If approved, they are implemented by the Office of Budget and Strategic Planning through

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**NOTE 2 - CONTINUED**

budget revisions. Supplemental appropriations may be required for several reasons, including the award of Federal and State grants during the year, the release of contingency funds for expenditure, and funding for unanticipated program requirements. An additional factor that may cause supplemental appropriations is the Federal fiscal year, which does not coincide with the County fiscal year. As a result, additional appropriations are required for those funds that account for Federal programs such as the Developmental Disabilities Fund. For the fiscal year 2001 approximately 21 supplemental appropriation ordinances were approved increasing the level of appropriations in the operating funds by approximately \$285 million, or 1 percent of the \$2.76 billion appropriated for 2001.

During the last quarter of the fiscal year, the County Council, when requested by the County Executive, may adopt an ordinance to transfer appropriations between agencies of County government.

The County Executive, within the restrictions of any provisos in the appropriation ordinances, may establish and amend detailed line item budgets so long as the total budget for each appropriation unit does not exceed the budgeted level of authorized expenditures established by ordinance approved by the County Council.

**Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund, and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, such as intergovernmental revenues where revenue estimates are matched with appropriations. Expenditures are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets, i.e., they are applicable to the current fiscal year.

Twenty-four Special Revenue Funds have an annual budget with budgeting concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2001.

Two funds within the Special Revenue Fund type do not have an annual basis of budgeting. They are the Community Development Block Grant Fund and the Miscellaneous Grants Fund. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with *Revised Code of Washington (RCW)*, Chapter 86.15.

The Lake Management District Fund is not budgeted. This fund accounts for Lake Management District special assessment activity in accordance with *RCW* Chapter 36.61.

NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - CONTINUED**

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with *RCW* Chapter 36.88.

The Treasurer's Operations and Maintenance Fund, pursuant to *RCW* Chapter 84.56.020, is not budgeted.

Three Debt Service Funds have an annual budget with budgeting concepts identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited General Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report road improvement districts' special assessments revenues and debt service expenditures in accordance with *RCW* Chapter 36.88.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year, unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation, and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with *RCW* Chapter 36.88.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations is deferred to the following year when the claim is paid. In 2001 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

**Encumbrances**

Encumbrance accounting is used by King County for purchase orders, contracts, and other commitments for the expenditure of monies to reserve that portion of the applicable appropriation as an extension of formal budgetary integration. At the end of the year, open

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**NOTE 2 - CONTINUED**

encumbrances are reported on the budget to actual statements/schedules of governmental and proprietary funds; the budget is then reestablished in the coming year without being reappropriated. Encumbrances outstanding at year-end are reported as a reserve of fund balance in governmental type funds.

Encumbrances outstanding as of December 31, 2001, are shown in the following schedule by fund type:

YEAR-END ENCUMBRANCES OUTSTANDING AS OF DECEMBER 31, 2001

General Fund	\$ 5,425,929
Special Revenue Funds	21,949,667
Capital Projects Funds	29,496,299
Enterprise Funds	4,028,832
Internal Service Funds	<u>2,197,003</u>
Total All Funds	<u>\$ 63,097,730</u>

**Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds**

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the Generally Accepted Accounting Principles (GAAP) basis in 2001. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. All statements that do not have budget comparisons are prepared on the GAAP basis.

The following schedules reconcile the actual GAAP data to the budgetary basis data for the General, Special Revenue, and Debt Service Funds:

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2001

	TOTAL (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS		TOTAL (BUDGETARY BASIS)
		ENCUMBRANCES	OTHER	
REVENUES				
Interest earnings	\$ 18,285,308	\$	\$ (1,257,359) (a)	\$ 17,027,949
Other revenues	467,268,237			467,268,237
TOTAL REVENUES	485,553,545		(1,257,359)	484,296,186
EXPENDITURES				
Current	444,697,943	4,858,241	-0-	449,556,184
Debt Service	-0-	-0-	-0-	-0-
Capital outlay	1,719,901	567,688	-0-	2,287,589
TOTAL EXPENDITURES	446,417,844	5,425,929	-0-	451,843,773
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,135,701	(5,425,929)	(1,257,359)	32,452,413
OTHER FINANCING SOURCES (USES)				
Disposition of fixed assets	61,133			61,133
Operating transfers in	463,557		7,214,909 (b)	7,678,466
Operating transfers out	(36,365,335)		(7,214,909) (b)	(43,580,244)
TOTAL OTHER FINANCING SOURCES (USES)	(35,840,645)	-0-	-0-	(35,840,645)
ELIMINATE ENCUMBRANCES FROM THE BUDGETARY BASIS		5,425,929		5,425,929
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS			1,257,359	1,257,359
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES (GAAP BASIS)	3,295,056			3,295,056
FUND BALANCE - JANUARY 1, 2001 RESTATED	79,436,658			79,436,658
INCREASE IN RESERVE FOR INVENTORY	11,583			11,583
FUND BALANCE - DECEMBER 31, 2001	\$ 82,743,297	\$ -0-	\$ -0-	\$ 82,743,297

(a) Recognition of unrealized gains on investments revenue on a GAAP basis.

(b) Budgeted intrafund operating transfers of \$7,214,909.

# NOTES TO FINANCIAL STATEMENTS

## DECEMBER 31, 2001

### NOTE 2 - CONTINUED

#### SPECIAL REVENUE FUNDS

#### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

#### RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS

#### FOR THE YEAR ENDED DECEMBER 31, 2001

	ALL FUNDS (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS NON-BUDGETED FUNDS (GAAP BASIS)	ENCUMBRANCES	OTHER	TOTAL BUDGETED FUNDS (BUDGETARY BASIS)
REVENUES					
Taxes	\$ 126,476,228	\$ (795,355)	\$	\$	\$ 125,680,873
Licenses and permits	13,761,121				13,761,121
Intergovernmental revenues	297,221,175	(31,509,155)			265,712,020
Charges for services	110,891,159	(707,516)			110,183,643
Fines and forfeits	383,203				383,203
Interest earnings	6,533,752	(423,102)		(648,673) (a)	5,461,977
Miscellaneous revenues	6,506,086	(1,601,740)			4,904,346
TOTAL REVENUES	561,772,724	(35,036,868)		(648,673)	526,087,183
EXPENDITURES					
Current					
General government services	18,670,339	(1,379,119)			17,291,220
Law, safety and justice	74,882,064	(13,468,837)	2,609,226		64,022,453
Physical environment	35,242,798	(221)	2,424,221		37,666,798
Transportation	52,154,009	(683,272)	562,778		52,033,515
Economic environment	58,966,768	(17,788,310)	179,128	(43,183) (b)	41,314,403
Mental and physical health	299,069,153	(865,900)	898,910		299,102,163
Culture and recreation	6,133,921	(21,000)	3,512,672		9,625,593
Total Current	545,119,052	(34,206,659)	10,186,935	(43,183)	521,056,145
Debt service	197,915	(279)	18,153		215,789
Capital outlay					
Capital projects	7,225,295		709,999		7,935,294
Capitalized expenditures	5,745,557	(86,088)	2,261,651		7,921,120
Capitalized expenditures-capital leases	185,670			(185,670) (c)	
Total capital outlay	13,156,522	(86,088)	2,971,650	(185,670)	15,856,414
TOTAL EXPENDITURES	558,473,489	(34,293,026)	13,176,738	(228,853)	537,128,348
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,299,235	(743,842)	(13,176,738)	(419,820)	(11,041,165)
OTHER FINANCING SOURCES (USES)					
Proceeds of long-term debt - capital leases	185,670			(185,670) (c)	
Disposition of fixed assets	2,089,364				2,089,364
Operating transfers in	29,634,836				29,634,836
Operating transfers out	(35,879,557)	470,063			(35,409,494)
TOTAL OTHER FINANCING SOURCES (USES)	(3,969,687)	470,063	-0-	(185,670)	(3,685,294)
ELIMINATE ENCUMBRANCES FROM THE BUDGETARY BASIS			13,176,738		13,176,738
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(670,452)	(273,779)	-0-	(605,490)	(1,549,721)
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS				605,490	605,490
FUND BALANCE - JANUARY 1, 2001	93,215,345	(2,305,829)			90,909,516
FUND BALANCE - DECEMBER 31, 2001	\$ 92,544,893	\$ (2,579,608)	\$ -0-	\$ -0-	\$ 89,965,285

(a) Recognition of unrealized gains on investments revenues on a GAAP basis.

(b) GAAP basis expenditures for vacation and sick leave accrual, \$43,183.

(c) Non-budgeted expenditures and other sources from the acquisition of fixed assets by capital lease.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**

**NOTE 2 - CONTINUED**

DEBT SERVICE FUNDS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 RECONCILIATION OF GAAP BASIS AND BUDGETARY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2001

	ALL FUNDS (GAAP BASIS)	ADJUSTMENT TO NON-GAAP BUDGETARY BASIS		TOTAL BUDGETED FUNDS (BUDGETARY BASIS)
		NON-BUDGETED FUNDS (GAAP BASIS)	OTHER	
REVENUES				
Taxes	\$ 103,976,445	\$	\$	\$ 103,976,445
Intergovernmental revenues	3,856,977		8,725,454 <sup>(a)</sup>	12,582,431
Charges for services	4,234,375			4,234,375
Interest earnings	1,411,437	(235,861)	(175,199) <sup>(b)</sup>	1,000,377
Miscellaneous revenues	172,103	(170,949)		1,154
TOTAL REVENUES	113,651,337	(406,810)	8,550,255	121,794,782
EXPENDITURES				
Debt service	117,518,342	(51,967)	63,709,933 <sup>(a)</sup>	181,176,308
TOTAL EXPENDITURES	117,518,342	(51,967)	63,709,933	181,176,308
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,867,005)	(354,843)	(55,159,678)	(59,381,526)
OTHER FINANCING SOURCES (USES)				
Disposition of fixed assets	10,083			10,083
Operating transfers in	8,863,910		54,984,479 <sup>(a)</sup>	63,848,389
TOTAL OTHER FINANCING SOURCES (USES)	8,873,993	-0-	54,984,479	63,858,472
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	5,006,988	(354,843)	(175,199)	4,476,946
ADJUSTMENT FROM BUDGETARY BASIS TO GAAP BASIS			175,199	175,199
FUND BALANCE - JANUARY 1, 2001	34,375,573	(2,963,989)		31,411,584
FUND BALANCE - DECEMBER 31, 2001	\$ 39,382,561	\$ (3,318,832)	\$ -0-	\$ 36,063,729

(a) Revenues and expenditures related to proprietary limited general obligation bonds which are budgeted, but are not reported on GAAP basis statements.

(b) Recognition of unrealized gains on investments revenue on a GAAP basis.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001

**NOTE 2 - CONTINUED****Budgeted Level of Expenditures**

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual include variances at the function of expenditure level. These variances are presented for informational purposes only and, if unfavorable, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

**Undesignated Fund Balance and Retained Earnings Deficits**

Building Construction and Improvement – The deficit of \$10,836,855 is the result of using short-term bond anticipation notes to finance long-term capital projects. This short-term borrowing is scheduled to be replaced by general obligation bonds in 2004. The proceeds of the future bond issue will be recorded as Other Financing Sources in the capital projects fund thereby eliminating the fund balance deficit.

Building Repair and Replacement – The deficit of \$215,674 is the result of reserves for encumbrances exceeding the fund balance. Contributions from other funds in 2002 are expected to eliminate this deficit.

Community Development Block Grant Fund – The deficit of \$6,912,691 is the result of reserves for encumbrances exceeding the fund balance. Grant revenue in 2002 is expected to eliminate the deficit.

County Road Fund – The deficit fund balance of \$6,245,372 is the result of programmed sales of surplus property not meeting expectations. Programmed property sales were expected to generate \$8,000,000, while actual property sales were \$2,100,000, due to fewer property sales than expected. Proceeds from sales of the remaining properties in 2002 are expected to eliminate the deficit.

Employee Benefits Program Fund – The deficit of \$4,065,372 is the result of prior net losses of \$1,391,424 and \$4,219,630 during 1999 and 2000, respectively. The deficit is being addressed in subsequent years through rate setting.



**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - CONTINUED**

Long-Term Leases Fund - The deficit of \$960,155 is the result of unreimbursed expenditures for various tenant improvements and earthquake repairs. The Property Services Section plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies. Reimbursement from Federal Emergency Management Agency (FEMA) is expected to cover some portion of the earthquake repair costs.

Miscellaneous Grants Fund - The deficit of \$1,074,902 is the result of encumbrances exceeding the fund balance. Grant revenue in 2002 is expected to eliminate the deficit.

Park Facilities Rehabilitation Fund - The deficit of \$214,478 is the result of reserves for encumbrances exceeding the fund balance. Contributions from other funds in 2002 are expected to eliminate this deficit.

Parks, Recreation and Open Space Fund - The deficit of \$2,081,237 is the result of expenditures for land acquisition using short-term borrowing, with the expectation of reimbursement from a State grant. The State is currently reviewing the County's application for reimbursement.

Radio Communications Enterprise - The deficit of \$2,378,380 is the result of revenues not fully covering depreciation expense on radios and radio system infrastructure.

Road Improvement Districts Construction Fund - The deficit of \$56,177 is the result of using short-term debt to finance the various projects of road improvement districts. As the capital projects are completed, short-term debt is replaced by long-term bonds. The long-term bonds are recorded in the General Long-term Debt Account Group, thereby eliminating the deficit.

Safety and Workers' Compensation Fund - The deficit of \$4,222,570 is the result of losses in several years in the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities.

Stadium Enterprise - The deficit of \$121,047,681 is primarily the result of increased depreciation expense. Effective January 1, 1997, the estimated useful lives of the Stadium Enterprise fixed assets were reduced to three years in anticipation of the March 2000 demolition of the Kingdome and subsequent construction of a new stadium by the Washington State Public Stadium Authority, a component unit of the State of Washington. The Retained Earnings deficit is more than offset by Contribution Equity of \$123,522,975.

Transfer of Development Credit Program Fund - The deficit of \$1,492,668 was the result of spending, using short-term borrowing, in anticipation of planned contributions from the Conservation Futures Levy fund.

Water Quality Enterprise - The cumulative net loss of the Water Quality Enterprise exceeded reserved retained earnings during the year ended December 31, 2001, resulting in a deficit in unreserved retained earnings of \$20,085,839. The Water Quality Enterprise is not currently budgeted to receive additional revenues or reduce costs to eliminate the deficit in unreserved retained earnings. This condition is the result of depreciation and amortization expense on assets, which have been primarily financed with long-term debt. Current and projected net

NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - CONTINUED**

operating revenues of the Water Quality Enterprise exceed amounts required by bond covenants and financial policies for current and future debt service.

**Expenditures in Excess of Amounts Legally Authorized**

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures.

Funds with Multi-year Budgets

Twenty Capital Projects and Enterprise Funds with multi-year budgets have a total of 130 projects that have expenditures of \$8.3 million in excess of budget at year-end. These projects will be corrected during the capital projects reconciliation process or by additional appropriation in 2002.

**Public Transportation Enterprise Bond Covenants**

During 2001 the Public Transportation Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2000 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2002 the Enterprise again has complied with all covenants, except for providing 2001 audited statements within 120 days of year-end. The 2001 financial statements will be completed within the six-month extension period.

**Water Quality Enterprise Bond Covenants**

During 2001 the Water Quality Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2000 financial statements and a consulting engineer's report within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2002 the Enterprise again has complied with all covenants, except for providing 2001 audited statements and an engineer's report within 120 days of year-end. The 2001 financial statements will be completed and the engineer's report finalized within the six-month extension period.